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IN THE

Supreme Court of the United States

October Term, 1975

No. 75-1037

MOOG INC.,

Petitioner,

vs.

PEGASUS LABORATORIES, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

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MOOG INC.,

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vs.

PEGASUS LABORATORIES, INC.,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner prays that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Sixth Circuit entered in the above-entitled case on September 5, 1975.

Citations to Opinions Below

The opinion of the Court of Appeals is reported at 521 F.2d 501 and is reprinted in the Appendix hereto (pp. 26a-36a). A first memorandum opinion of the District Court containing initial findings is reported at 376 F.Supp. 439 and is reprinted in the Appendix hereto (pp. 1a-13a). A

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second memorandum opinion of the District Court containing additional findings is reported at 376 F.Supp. 445 and is reprinted in the Appendix hereto (pp. 14a-25a).

Jurisdiction

The judgment of the Court of Appeals was entered September 5, 1975 (Appendix, pp. 37a-38a). A petition for rehearing in banc was denied on October 24, 1975 (Appendix, p. 39a). The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

Questions Presented

The Court of Appeals for the Sixth Circuit construed 35 U.S.C. § 135(c) so as to hold the patent in suit permanently unenforceable for mere tardiness in filing a subsequent agreement modifying an earlier and timely-filed complete interference settlement agreement. The subsequent agreement was made after priority was determined by the parties pursuant to said earlier agreement, but did not affect such determination of priority. The questions presented are:

1) Does 35 U.S.C. § 135(c) authorize a patent to be declared permanently unenforceable when an interference settlement agreement involving the patent or its application is actually filed, albeit untimely?

2) Does such a subsequent agreement have a sufficient nexus with termination so as to be regarded as "made in connection with or in contemplation of the termination of the interference", within the meaning of 35 U.S.C. § 135(c), and thereby need to be filed?

3) Did Congress intend the filing times stated in 35 U.S.C. § 135(c) to be directory or mandatory with respect to such a subsequent agreement?

Statute Involved

The provisions of Section 135(c) added to the 1952 Patent Act by amendment October 15, 1962 [35 U.S.C. § 135(c)] are as follows:

> "(c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.
>
> The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice.
>
> Any discretionary action of the Commissioner under this subsection shall be reviewable under section 10 of the Administrative Procedure Act."

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Statement of the Case

Petitioner sued respondent in the Eastern District of Michigan, Southern Division, for infringement of W. C. Moog patent No. 3,228,423, applied for on January 23, 1956 and issued on January 11, 1966.

The following salient facts are undisputed in the record.

The patent in suit relates to an electrohydraulic servovalve having an isolation barrier between a dry electrical section and a wet hydraulic section to prevent malfunction.

The application for such patent became involved in two separate interferences with two patent applications owned by Bell Aerospace Corporation. One interference was a contest to determine who was the first inventor of a generic invention in which the barrier was characterized as a "flexure member", and the other was for a species invention which characterized the barrier as a "flexure tube". The W. C. Moog application disclosed a servovalve having a "flexure tube" barrier, necessarily an embodiment of both inventions. One of the Bell applications (Wolpin et al.) disclosed an embodiment only of the generic invention and not the specific improvement invention having the "flexure tube". The other Bell application (Buchanan) disclosed the "flexure tube" form.

In 1964, petitioner Moog (owner of the W. C. Moog application) entered into separate but identical patent interference settlement agreements with Bell, one for each interference. Copies of both were filed in the Patent Office within seven days following execution. Each agreement prescribed a conventional procedure for the parties to determine priority, the loser receiving a fully paid up nonexclusive and irrevocable license under the winner's patent along with the right to sublicense others.

Consistent with the procedure established in the 1964 agreements, the attorneys for Moog and Bell determined, on the basis of priority proofs exchanged, that Wolpin et al. was the first inventor of the generic "flexure member" invention and W. C. Moog was the first inventor of the species "flexure tube" invention.

Thereafter, but before the interferences were officially terminated by the Patent Office, Moog and Bell entered into a pair of separate but identical 1965 supplemental agreements, one for each interference. These supplemental agreements simply revoked the sublicense right, without disturbing the main license of the interference loser, nor changing the priority determination.

These 1965 supplemental agreements were not timely filed in the Patent Office, partly due to a belief that there was no need to file them and partly due to inadvertence, according to Bell's attorney's uncontroverted testimony. They were submitted to the Patent Office only after another attorney for Bell recommended doing so. This occurred about eleven months after the interferences had been officially terminated.

The 1965 supplemental agreements were received by the Patent Office and placed in the appropriate interference files so as to be accessible for inspection, in the exact same manner as the Patent Office had dealt with the timely-filed 1964 agreements.

No detriment in the form of prejudice or injury to anyone resulted from the tardy filing of the supplemental agreements, even assuming they had to be filed.

The Court of Appeals for the Sixth Circuit, in affirming the District Court, concluded that there was a need to file each 1965 supplemental agreement, and because they were

untimely filed, held the patent in suit permanently unenforceable without seemingly considering, certainly not explicitly, petitioner's arguments that the forfeiture penalty of the statute was not authorized where there was an actual although untimely filing, as here, or as to why mere tardiness in filing should stay imposing the sanction.

ARGUMENT

Reasons for Granting the Writ

This case should be reviewed on certiorari because it involves important questions concerning interpretation of a federal law which have not been, but should be, settled by this Court.

The statute involved simply requires the filing of a copy of a patent interference settlement agreement so that it will be accessible for inspection and facilitate the collection of information. The purpose is to discourage improper settlements detrimental to the public interest, such as those violative of the antitrust laws, through the required act of filing on the public record. The statute requires no review of a filed agreement by anyone, neither the Patent Office nor the Justice Department. In short, the simple act of filing was thought to provide the intended deterrent effect.

Testimony before Congress on the bill revealed that there was an annual average of 774 patent interferences for the years 1957 through 1961; that about 80% of such interferences are settled between the parties; and that settlement is to be encouraged. These figures indicate that likely over 600 interference settlement agreements are required to be filed per year.

It is important for the parties to such interference settlement agreements to know the scope of their filing obligations under the statute and need the guidance of this Court, especially since the lower court decisions in the instant case leave the intent and meaning of the statute in a state of confusion, such as by focusing on the content of such agreements rather than on the fact of their filing, and by failing to apply established principles of statutory construction.

The questions presented herein are important ones of first impression. Only three reported cases are known to petitioner's counsel which have dealt with 35 U.S.C. § 135(c), and none involved the present questions, and none had been decided when the 1965 supplemental agreements in the instant case were filed.

In the first case, *Old Dominion Box Co. v. Continental Can Co.*, 273 F.Supp. 550 (S.D.N.Y. 1967), affirmed, 393 F.2d 321 (2d Cir. 1968), the District Court considered an agreement to be subject to the filing requirement of 35 U.S.C. § 135(c) and, since it was not filed in the Patent Office, held the involved patent to be unenforceable under this statute. The District Court also held the same patent invalid over prior art. The Court of Appeals affirmed on the issue of invalidity and stated that this rendered unnecessary resolution of the issue of unenforceability under 35 U.S.C. § 135(c).

The second case, *Esso Research & Engineering Co. v. Brenner, Com'r. Pats.*, ____ F.2d ____, 165 U.S.P.Q. 486 (D.C. Cir. 1970), was a mandamus proceeding against the Commissioner of Patents to compel him to receive a patent interference settlement agreement tendered four years late because of inadvertence. The Commissioner contended he had no authority to accept the agreement after the expiration of the statutory six-months' grace period following

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the interference termination. The decision revolved about the limited question of whether the Commissioner had given notice of the filing requirement a "reasonable" time prior to the termination, it being held that he had.

The evidence in the third case, *Forbro Design Corp. v. Raytheon Co.*, 390 F.Supp. 794 (D. Mass. 1975), revealed that one claim of the patent in suit, but not one of the claims asserted against the accused infringer, had been involved in an interference in which priority had been awarded to the patentee by the Board of Interference Examiners on the basis of stipulated evidence submitted after the interferants had entered into a written non-exclusive, royalty-free, cross-license agreement under patents which each owned relating to the same field of subject matter. A copy of such agreement was not filed in the Patent Office. The District Court held that it should have been, but that failure to do so rendered unenforceable only the one claim involved in the interference.

Thus, in each of these three reported cases there was only one agreement which was *never* filed in the Patent Office; unlike the instant case involving a timely-filed patent interference settlement agreement, representing the complete agreement between the parties at the time made, and a subsequently-made modifying agreement which was also actually filed, but only tardily.

In the instant case, the Commissioner actually received and filed the 1965 Moog-Bell supplemental agreement, submitted after the six-month grace period; whereas several years later in *Esso* he refused to receive an agreement tendered after the six-month grace period. Thus, an apparent change and inconsistency in the administration of the statute was made by the Commissioner, the propriety of which should be clarified by this Court. This is another reason for the grant of certiorari.

Error in the Court Below

Involved is an alleged violation of a statute, 35 U.S.C. § 135(c), which renders a patent permanently, not purgably, unenforceable. A patent is the government's agreement to enforce the inventor's right to exclude others. See comments of Chief Judge Howard T. Markey, United States Court of Customs and Patent Appeals, to Judges Seminar conducted in 1974 by the Federal Judicial Center, reported at 66 F.R.D. 529, 531, 533. Denying the patentee the right to enforce his patent results in forfeiture of a property right, which equity abhors. Cf., *The Washingtonian Publishing Co. v. Pearson et al.*, 306 U.S. 30, 39-42 (1939).

A statute authorizing the forfeiture of property without compensation is penal in nature and must be strictly construed according to its express letter. *One Plymouth Sedan v. Pennsylvania*, 380 U.S. 693, 700 (1965); *Stapleton v. $2,438,110*, 454 F.2d 1210, 1216 (3rd Cir. 1972). According to the language of the statute here involved, the forfeiture penalty is associated with the failure to file. Thus, the act of filing is the essence of the statute. If there was actual filing, as in the instant case, the forfeiture penalty should not be imposed, contrary to the ruling of the Court below.

The following admonition of Mr. Justice Frankfurter in *62 Cases of Jam v. United States*, 340 U.S. 593, 600 (1951), seems appropriate:

> "In our anxiety to effectuate the congressional purpose of protecting the public, we must take care not to extend the scope of the statute beyond the point where Congress indicated it would stop."

Before such forfeiture penalty is imposed under the statute here involved, three factors should be considered, to wit: (1) the need to file a particular agreement; (2) any

actual filing of the agreement; and (3) the timeliness of any actual filing.

In the instant case, the Courts below devoted their entire analysis to determining that there was a need to file the supplemental agreement, and recognized that it was actually filed, but failed to consider, certainly not expressly, the legal consequence of the mere tardiness in such filing.

Even if it is assumed *arguendo* that the supplemental agreement was of the type contemplated by the statute to be filed, the unequivocal fact remains that it was actually filed, albeit untimely.

A forfeiture penalty is not to be exacted unless the accused conduct violates both the "letter" and the "spirit" of the law. *United States v. One 1936 Model Ford V-8 Deluxe Coach,* 307 U.S. 219, 226 (1939); cf., *Harrison v. Vose,* 50 U.S. (9 How.) 372, 378-379 (1850). While there may have been a literal noncompliance with the various time provisions in the statute here involved in connection with the filing of the supplemental agreement, there has been a compliance with the spirit of the statute. This is at least substantial compliance, especially since no one has been injured by the tardy filing, and there is plausible excuse for the tardiness based on uncontroverted testimony which the Court below failed to see and refused to consider on rehearing.

Whether an agreement filed under the statute has any antitrust implication, extensively explored by the Courts below with respect to the supplemental agreement, is totally irrelevant to a determination of whether or not there has been a violation of this statute sufficient to impose its forfeiture penalty. The alleged violation of 35 U.S.C. § 135 (c) sufficient to impose the sanction presents a narrow de-

fense hinging on limited facts, and represents only one of several pleaded defenses against the patent in suit, the balance of which are preserved for future trial in the event the sanction of permanent unenforceability is finally ruled unjustified.

It is submitted that the statute involved here is concerned primarily with the need to file an agreement entered into before priority of inventorship is determined, such determination being the very object of an interference. The statute prefers filing "before the termination of the interference" as between the parties. In the instant case, the supplemental agreement was made after the interferants properly determined priority as between them. Such determination was not disturbed by the supplemental agreement, which was made after *de facto* termination of the interference. Therefore, whether "termination" as used in the statute is construed to mean official termination, when so declared by the Patent Office, or *de facto* termination, as by the parties deciding priority, certainly can affect the legal obligation to file an agreement. For that matter, so can any post-termination agreement regardless of how "termination" is interpreted. The statute is ambiguous on what type of "termination" controls the need to file, and requires interpretation which this Court should provide.

While there may be a general rule that a statute, requiring the doing of things within a specified time, addressed to private individuals, as opposed to public officers, is generally considered mandatory rather than directory, the Court below failed to recognize and apply the exception that, where there is only tardy performance of a statutorily prescribed act and the time of performing the essential act does not have substance, the penalty should not be imposed. This exception was applied by federal courts con-

cerning federal statutes and regulations in *United States v. G. W. Van Keppel*, 321 F.2d 717 (10th Cir. 1963); *Antonopulos et al. v. Aerojet-General Corp.*, 295 F.Supp. 1390 (E.D. Cal. 1968); *Pearce v. United States*, 226 F.Supp. 702 (W.D.N.Y. 1964); and by state courts concerning state statutes in *Chisholm v. Bewley Mills*, 287 S.W.2d 943 (Sup. Ct. Texas 1956); *Christgau v. Fine et al.*, 27 N.W.2d 193 (Sup. Ct. Minn. 1947).

Factors about the statute here involved, such as its purpose being merely to render information accessible, the absence of any required review of a filed agreement, the provision of various times for filing, and the absence of language expressly restricting filing only to such times, show that Congress did not intend time to be of the essence. These factors persuade the conclusion that the filing time provisions are directory, rather than mandatory. Certainly this should be so with respect to any agreement made subsequent to determination of inventor priority.

Without revealing its reasoning, the Court below in effect held the filing time provisions to be mandatory, erroneously it is submitted.

Conclusion

Petitioner respectfully requests that this petition for a writ of certiorari be granted.

Respectfully submitted,

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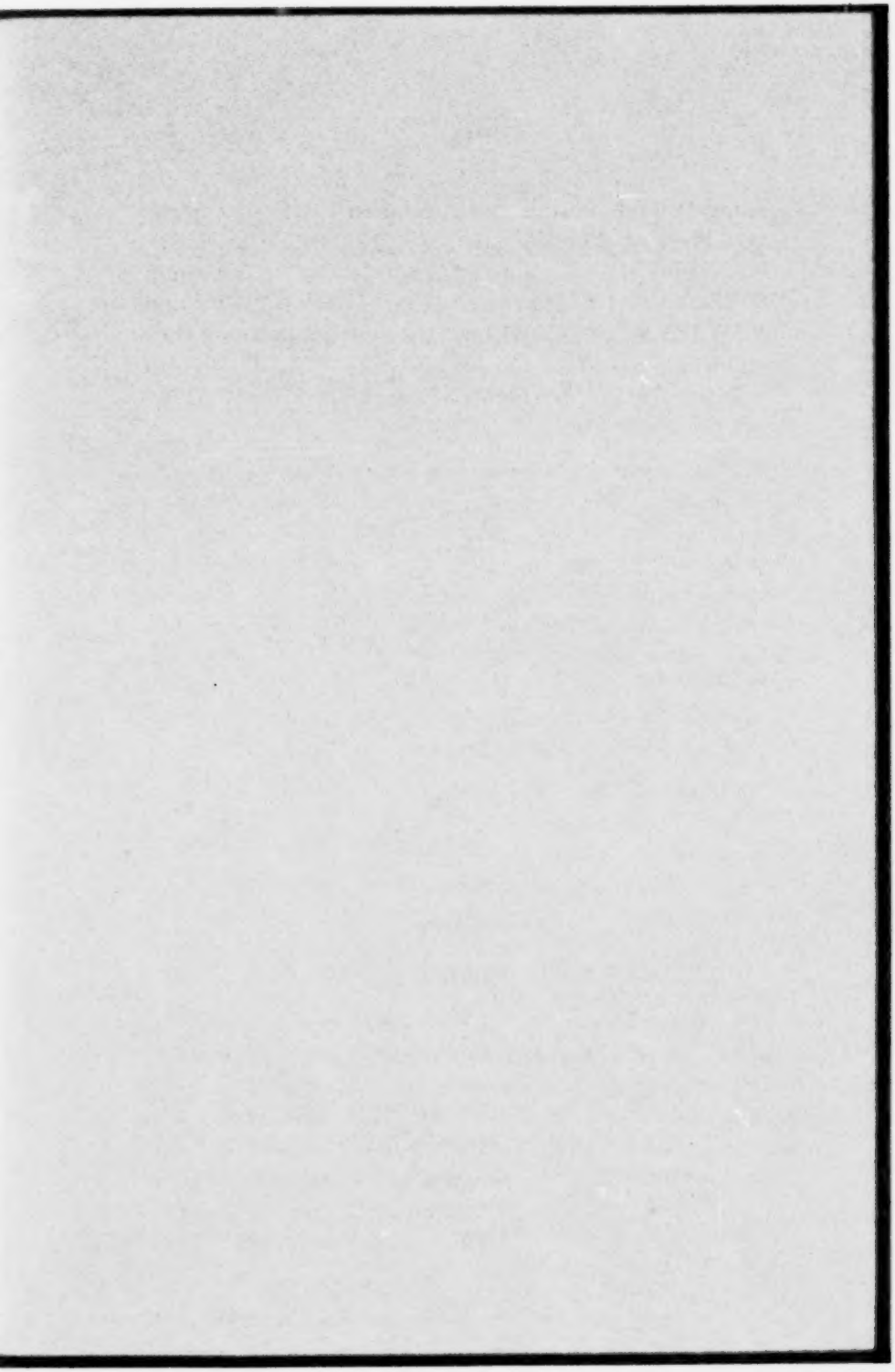

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APPENDIX

First Memorandum Opinion of the United States District Court

UNITED STATES DISTRICT COURT,

E. D. MICHIGAN, S. D.

June 26, 1973.

MOOG, INC.,

Plaintiff,

v.

PEGASUS LABORATORIES, INC.,

Defendant.

Civ. A. No. 30888.

FEIKENS, District Judge.

Defendant, Pegasus Laboratories, Inc., brings a motion for summary judgment saying plaintiff Moog's patent is unenforceable for failure to comply with 35 U.S.C. § 135(c). Plaintiff resists this motion on a number of grounds.

There has been protracted litigation of a closely related matter in the Western District of New York. Counsel have supplied this court with the record made in that case. Abex Corp. v. Moog, Inc., Action No. 1967-111. Counsel have also indicated the portions of that voluminous record which must be considered in reaching a decision in the instant matter.

First Memorandum Opinion of the United States District Court

For the purposes of this motion, the court adopts the relevant findings of fact proposed by Moog in the New York proceeding. Thus, this court views the facts in a light most favorable to the respondent. Moog's proposed findings of fact are as follows:

On May 25, 1955, Martin P. Wolpin et al. filed in the United States Patent Office an application (Serial No. 511,088) disclosing a dry motor type electrohydraulic servovalve in which the electrical section is isolated from the hydraulic section by a flexible disc backed up by a knife-edge, the original claims being limited to this "flexible disc" element. The application was assigned to Bell Aerospace Corporation (hereinafter Bell).

On January 23, 1956, William C. Moog, Jr. filed in the United States Patent Office an application (Serial No. 560,573) disclosing a dry motor type electrohydraulic servolvalve in which the electrical section is isolated from the hydraulic section by a "flexure tube" or "sleeve member" to which element the original claims were limited. The application was assigned to Moog Servocontrols, Inc., now by change of name to Moog, Inc., the present plaintiff.

On April 12, 1957, J. D. Buchanan filed in the United States Patent Office an application (Serial No. 652,489) disclosing a dry motor type electrohydraulic servovalve in which the electrical section is isolated from the hydraulic section by a "flexible tube" to which element the original claims were limited. The application was assigned to Bell.

In September and October of 1959, the Patent Office suggested two claims to Wolpin et al. and Moog for purpose of interference, one calling for a "flexible member" and the

other for a "flexure member," and stated that a failure to make these claims would constitute a disclaimer of the subject matter involved.

Both Wolpin et al. and Moog copied the two suggested claims into their respective applications.

On December 22, 1959, the Patent Office declared Interference No. 90,770 between the Moog and Wolpin et al. applications on the basis of the copied suggested claims.

On August 6, 1962, the Patent Office declared Interference No. 92,963 between the Buchanan and Moog applications on the basis of two claims, one calling for a "flexible spring metal tube" and the other for a "flexible tube," which Bell had proposed as counts in Interference No. 90,770 and also copied into the Buchanan application to provoke this separate Interference No. 92,963. Before Interference No. 92,963 was declared, Moog had copied into his application the two claims proposed by Bell, and Buchanan had copied into his application three claims suggested by the Patent Office which were identical with claims 10, 12 and 15 already in the Moog application and each calling for a "flexure tube."

On November 18, 1962, the Patent Office gave notice to the parties to both Interferences of 35 U.S.C. § 135(c), requiring the filing in the Patent Office of a copy of any agreement "in connection with or in contemplation of the termination of the interference."

In prospective contemplation of settling Interference No. 90,770 (Moog v. Wolpin, et al.), Moog and Bell entered into a written agreement dated August 21, 1964. By the terms of this agreement, Moog and Bell established a formal settlement procedure providing for:

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a. An exchange of proofs of inventorship between the parties to determine which party would be entitled to an award of priority;

b. If the parties were unable to determine which party would be entitled to an award of priority within six months from the date of the agreement, the interference would be resumed in the Patent Office; and

c. The party found not to be entitled to the award of priority agreed to promptly file a concession of priority. In addition, the parties granted to each other non-exclusive paid-up cross-licenses under their respective applications. Each license granted the other party the right to sub-license others.

On the same day, August 21, 1964, Moog and Bell entered into a separate written agreement in prospective contemplation of settling Interference No. 92,963 (Buchanan v. Moog). This agreement established the same formal procedure for exchanging proofs of inventorship between the parties, submitting the dispute to the Patent Office if unresolved six months thereafter, and providing for the concession of priority to the party found to be the first inventor. The parties also cross-granted non-exclusive paid-up licenses under their respective applications which contained the right to sub-license others.

Both of the patent interference settlement agreements of August 21, 1964, represented the complete understanding between Moog and Bell at the time.

Both agreements of August 21, 1964, between Moog and Bell [Interference No. 90,770 (Moog v. Wolpin, et al.); Interference No. 92,963 (Buchanan v. Moog)] were promptly

filed in the Patent Office on August 27, 1964, less than a week after their execution. Each agreement was forwarded to the Patent Office by a letter of transmittal jointly signed by the attorneys for the parties. Receipt of each agreement was acknowledged by the Patent Office by a separate letter, copy of which along with the agreement and its letter of transmittal were placed by the Patent Office in the respective interference file.

Pursuant to the formal procedure established in the agreements of August 21, 1964, the respective attorneys for the parties simultaneously exchanged proofs of inventorship by mail on February 10, 1965. The exchanged proofs comprised documents tending to establish the respective dates of invention.

On March 1, 1965, the attorneys representing Wolpin et al. in Interference No. 90,770 filed a letter in the Patent Office reporting that the parties had exchanged proofs and had determined Wolpin et al. to be the first inventor and entitled to the award of priority. The letter also reported that Moog would file a concession of priority to Wolpin, et al.

On March 4, 1965, the attorneys for Buchanan in Interference No. 92,963 filed a letter in the Patent Office reporting that the parties had exchanged proofs and that it had been determined that Moog was the first inventor. The letter also reported that Buchanan's concession of priority to Moog was being prepared.

On March 4, 1965, Moog's concession of priority was filed in the Patent Office, conceding Wolpin et al. to be the first inventor in Interference No. 90,770 (servovalve including the "flexure member" element).

First Memorandum Opinion of the United States District Court

On March 5, 1965, Buchanan's concession of priority was filed in the Patent Office, conceding Moog to be the first inventor in Interference No. 92,963 (servovalve including the "flexure tube" element).

On March 16, 1965, Moog and Bell entered into two similar supplemental agreements, one relating to the Wolpin et al. and Moog applications, and the other relating to the Buchanan and Moog applications. By the terms of these supplemental agreements:

a. The parties revoked the cross-right to sub-license others granted by the settlement agreements of August 21, 1964, and

b. Both the settlement agreements and the supplemental agreements were made to be binding upon and to inure to the benefit of successors of each party.

On May 11, 1965, the Patent Office Board of Patent Interferences acknowledged the filing and sufficiency of the concession of priority filed by Moog in Interference No. 90,770.

On May 11, 1965, the Patent Office Board of Patent Interferences notified the parties of the filing and sufficiency of Buchanan's concession of priority to Moog in Interference No. 92,963.

Moog having conceded priority to Wolpin et al. the Wolpin et al. application in Interference No. 90,770 issued on October 5, 1965, as U.S. Patent No. 3,209,782, containing not only broad claims reciting "flexure member" (claims 11, 14) and "flexible member" (claims 10, 12, 13), but also the narrower and only claims asked for before this Interference

was declared limited to "flexible disc" (claims 1-7) and "diaphragm" (claims 8, 9).

Buchanan having conceded priority to Moog in Interference No. 92,963, Buchanan Patent No. 3,221,760 issued on December 7, 1965, containing only two claims asked for before this Interference was declared and limited to the armature having a "bore" into which the flexible tube fitted, a structural feature not disclosed in the Moog application.

Buchanan having conceded priority to Moog, the same Moog application involved in both Interferences Nos. 90,770 and 92,963 issued on January 11, 1966, containing the identical claims limited to "flexure tube" (claims 1-11) that had been asked for before either Interference was declared, as well as other more limited claims (claims 12-18).

On May 2, 1966, the attorneys for Wolpin et al. under cover of a letter of transmittal identifying Interference No. 90,770, submitted to the Patent Office without previous knowledge of Moog's attorney a copy of that one of the supplemental agreements of March 16, 1965, which related to the Wolpin et al. and Moog applications, both such letters of transmittal and supplemental agreement being placed by the Patent Office in the file of Interference No. 90,770.

On the same date, May 2, 1966, the same attorneys now representing Buchanan, under cover of a letter of transmittal identifying Interference No. 92,963, submitted to the Patent Office without previous knowledge of Moog's attorney a copy of the same supplemental agreement, instead of the other one relating to the Buchanan and Moog applications, both such letter of transmittal and the actually submitted wrong supplemental agreement being placed by the Patent Office in the file of the Interference No. 92,963.

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First Memorandum Opinion of the United States District Court

On May 27, 1966, by letter, copy of which was placed in the file of Interference No. 90,770, the Patent Office acknowledged filing of the appropriate supplemental agreement on May 2, 1966, but stated that no action could be taken because it was filed subsequent to termination of the interference.

On the same date, May 27, 1966, by separate letter, copy of which was placed in the file of Interference No. 92,963, the Patent Office acknowledged filing of the wrong supplemental agreement on May 2, 1966, but stated that no action could be taken because it was filed subsequent to termination of the interference.

On December 19, 1966, the attorney for Moog, under cover of an explanatory letter of transmittal identifying Interference No. 92,963 and captioned "Correction of Obvious Inadvertence in Record of Above Interference," submitted to the Patent Office with previous knowledge of Buchanan's attorney a copy of the correct supplemental agreement which related to the Buchanan and Moog applications, both such letter of transmittal and correct supplemental agreement being placed by the Patent Office in the file of Interference No. 92,963.

On January 5, 1967, by letter, copy of which was placed in the file of Interference No. 92,963, the Patent Office acknowledged filing of the correct supplemental agreement on December 19, 1966, but stated that no action could be taken since it was filed subsequent to termination of the interference.

Initially, this court must dispose of a threshold contention. Moog argues that Pegasus failed to affirmatively

plead the defense of unenforceability as required by 35 U.S.C. § 282, and thus is barred from asserting it now. Pegasus insists its answer and counterclaim for declaratory relief satisfy this requirement. This court is inclined to adopt defendant's position primarily because "[a]ffirmative defenses are required to be pleaded to prevent surprise." Huszar v. Cincinnati Chemical Works, Inc., 172 F.2d 6, 9 (6th Cir. 1949). In view of the lengthy history of this cause, Moog cannot argue surprise.

Nevertheless, this court does not rest its decision on a liberal reading of Section 282 but rather grants Pegasus' motion to amend its answer to incorporate in its summary judgment motion an affirmative defense of unenforceability. The discretion of this court to allow amendments must be liberally construed. F.R.Civ.P. 15. Indeed, the refusal to allow amendment might be an abuse of discretion. Foman v. Davis, 371 U.S. 178, 83 S.Ct. 227, 9 L.Ed.2d 222 (1962). The absence of surprise eliminates the possibility that this late amendment will work an injustice upon Moog.

This court need not decide all the issues raised by Moog in opposition to summary judgment. Summary judgment must be denied because this court cannot say as a matter of law that unenforceability results from the failure of the parties to the interferences involved here to timely file the supplemental agreements. The sanction prescribed for failure to file under Section 135 is harsh—patent unenforceability. In view of the language of the statute as well as the congressional history, this court does not believe Congress intended unenforceability to result in all cases where parties failed to file supplemental agreements. Two examples come immediately to mind.

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First, the statute is silent about supplemental agreements executed after official termination of an interference by the Patent Office. Assuming the six-month grace period is of no assistance, a cursory reading of the statute might lead to the conclusion that since no filing would be accepted by the Patent Office, unenforceability would result. We do not believe Congress intended such a result.

A second example, arguably applicable to the facts at bar, is where a supplemental agreement is merely incidental to the basic termination agreement. Where, for example, the parties execute a supplemental agreement correcting some figures or spellings in the original termination agreement, this court cannot believe Section 135(c) demands a forfeiture of a patent if such an incidental agreement is not timely filed.

The statute requires the filing of "[a]ny agreement or understanding . . . made in connection with or in contemplation of the termination of the interference." This language demands some definite link between the settlement of an interference and the agreement or understanding.

There are situations where the alterations may be so minor as to be practically unconnected with the termination. In other words, there is a distinction between the termination itself and the termination agreement. Where a supplemental agreement is so substantial as to reach back and alter the termination of the interference, filing is required. But where the character of the supplemental agreement is such that it is merely incidental to the termination and, practically, it then only effects the termination agreement, the failure to file should not result in a forfeiture.

The legislative history supports this interpretation. The purpose of Section 135 is "to require the filing in the Patent Office of agreements settling patent interference proceedings." 1962 U.S. Code Cong. and Adm. News, 3286. The agreements which settled the interferences in the instant cause were the termination agreements of August 1964. The supplemental agreements provided for some modification. Unlike the termination agreements, they do not appear to fall within the definition of agreements "settling" an interference.

Moreover, the sum and substance of the legislative hearings as well as the congressional report is that Congress was seeking to check antitrust violations. Congress undoubtedly did not intend parties to an interference to have the option to decide whether or not a termination agreement had antitrust implications. Thus, if the instant case involved only the failure to file the termination agreements, notwithstanding the absence of antitrust allegations, the sanction of unenforceability would be appropriate. But where, as here, the unfiled agreements were supplemental, perhaps without antitrust implications and thus arguably merely incidental, the intent of Congress to impose forfeiture is questionable.

There is no allegation before this court that any actual prejudice resulted to anyone from the failure to file the supplemental agreements. Pegasus suggests in its brief that the supplemental agreements—particularly the revocation of licensing rights granted in the termination agreements—had potential antitrust implications and thus should have been filed.

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Pegasus cites authority to this court that is not persuasive. In Esso Research and Engineering Co. v. Brenner, 165 U.S.P.Q. 486 (March 18, 1970), the parties to an interference inadvertently failed to file a settlement agreement. Plaintiff sought to compel the Commissioner of Patents to accept a filing four years after termination. The Commissioner declined and his decision was approved by the District Court and the Court of Appeals. If in the instant case there had been no timely filing of the termination agreements of August 21, 1964, the *Esso Research* case would be compelling. But since the termination agreements were filed in the instant case, the teaching of the Court of Appeals is inapplicable.

Similarly, Old Dominion Box Co. v. Continental Can Co., 273 F.Supp. 550 (S.D.N.Y.1967), affirmed, 393 F.2d 321 (2nd Cir. 1968), is distinguishable from this case. The District Court ruled that a "lengthy agreement" between the parties to an interference was made in contemplation of a termination, and thus the failure to file resulted in unenforceability of the patent. To begin with, the agreement in *Old Dominion* was analogous to the termination agreements in the instant case, and in *Old Dominion* there was no filing whatsoever. Moreover, the court reached its conclusion about the nature of the settlement agreement only after a full trial on the merits. As a result, *Old Dominion* is not helpful to Pegasus' position.

Consistent with the congressional intent to take away from the parties to an interference the option to pick and choose which of their termination agreements have antitrust implications and thus which they need to file, this court

believes that all agreements, whether initial or supplemental, with actual or potential antitrust implications, must be filed in accordance with Section 135(c) or suffer the penalty of unenforceability. But where a supplemental agreement is such that it provides only incidental modification to a termination agreement and there are no antitrust implications, real or potential, the failure to file under Section 135(c) should not result in the imposition of the penalty of unenforceability.

The determination of where the supplemental agreements at bar fit in the above interpretation is a mixed question of fact and law. This court is not prepared to declare Moog's patent unenforceable without presentation of further facts. Therefore, unless evidence on this issue will be presented at the trial on the merits, this court deems it advisable to hold a hearing to decide this question prior to trial. The determination of other grounds advanced by Moog in opposition to summary judgment are held in abeyance pending determination of this issue.

Counsel are instructed to notify this court by letter within fourteen (14) days whether this matter can be resolved by a preliminary evidentiary hearing or more expeditiously at trial of this cause.

An appropriate order may be submitted.

Second Memorandum Opinion of the United States District Court

UNITED STATES DISTRICT COURT,
E. D. MICHIGAN, S. D.

MOOG, INC.,

Plaintiff,

v.

PEGASUS LABORATORIES, INC.,

Defendant.

Civ. A. No. 30888.

May 7, 1974.

FEIKENS, District Judge.

This is an action by Moog, Inc., a New York corporation, against Pegasus Laboratories, Inc., a Michigan corporation, for infringement of United States Patent No. 3,228,423, issued on January 11, 1966 to Moog for a dry motor type electrohydraulic servovalve. Pegasus contends the patent is unenforceable for failure to comply with 35 U.S.C. § 135 (c), which requires interference parties to file with the Patent Office a written copy of any "agreement or understanding" made "in connection with or in contemplation of the termination of the interference".[1]

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[1] "Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent Office before the termination of the interference as between

(Footnote continued on following page)

Second Memorandum Opinion of the United States District Court

A history of the interferences which preceded issuance of this patent is contained in the opinion of June 26, 1973, which was entered in this case.[1a] The parties had earlier agreed that the issue of unenforceability under section 135(c) was to be tried on the merits and that this hearing was to be given priority. The June 26 opinion made certain preliminary findings of fact and law; however, no final decision was reached.[2] Further discovery has been conducted and additional proofs submitted. Based upon this evidence and the accompanying briefs and oral argument, the defense of unenforceability can now can be conclusively adjudicated.

(Footnote continued from preceding page)
the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause. Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.

The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice." 35 U.S.C. § 135(c).

[1a] 376 F.Supp. 439.

[2] The June 26 opinion mischaracterized this procedure as a motion for summary judgment. There had in fact been an earlier motion for summary judgment filed by Pegasus asserting invalidity on these same grounds. That motion was denied because of certain unresolved fact issues surrounding termination of the interferences. The same legal issues were, however, carried over into this separate trial.

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Second Memorandum Opinion of the United States District Court

The major problems involved in applying the provisions of subsection (c) to the facts of this case fall generally into two categories. First, there has been some doubt as to whether the relationship between the unfiled agreement and termination of the interference was sufficient to meet the statutory test of connexity. Second, it was argued that the agreement in question was itself not of the type required to be filed. These issues will be individually considered, but first it is important to supplement the provisional findings of fact contained in the prior opinion. Those findings are approved and readopted here, except to the extent they may in any respect be inconsistent with the following recitation, in which case they stand modified accordingly.

Summary of Events

Two interferences were involved. The first was declared in December of 1959, the second in August of 1962. The opposing parties in each case were plaintiff Moog and the Bell Aerospace Corporation.[3] Both parties were notified by the Patent Office of the filing requirements of section 135(c). On August 21, 1964, the parties entered into a written agreement which provided for a settlement procedure requiring the exchange of proofs, to be followed by concessions of priority. The parties also granted each other nonexclusive royalty-free cross-licenses under their respective applications, and each granted the other the right to sublicense third parties. This agreement was properly filed

[3] The Moog application had been assigned by William Moog, Jr. to Moog Servocontrols, Inc., now Moog, Inc. The Bell applications were originally filed by J. D. Buchanan in one instance and Martin Wolpin and others in another. These were subsequently assigned to Bell.

with the Patent Office for both interferences. After proofs had been exchanged and concessions filed, Moog and Bell entered into a written supplemental agreement dated March 16, 1965, which revoked the previously agreed-upon right of each to sublicense any patent awarded to the other as a result of the interference proceedings. This supplemental agreement was later filed, but not within the time prescribed in the statute.

Origin and Importance of the Supplemental Agreement

On February 10, 1965, Moog and Bell exchanged documents relating to proof of priority, as provided for in the 1964 agreement. On February 15, 1965, Oser (Bell's attorney) telephoned Sommer (Moog's attorney) and reported that Bell was willing to concede priority to Moog in one interference, and Sommer indicated that Moog was tentatively willing to concede priority to Bell in the other. On February 17 Sommer telephoned Oser to report that the cross-concessions were acceptable. It was agreed that the respective concessions were to be prepared and signed but not filed until an understanding could be reached concerning revision of the 1964 settlement agreements to eliminate the sublicensing provisions. Sommer suggested such a revision; Oser was to advise Sommer as to Bell's position on Sommer's proposal. On February 25, after consulting with his client, Oser telephoned Sommer advising that Bell had no objection to the proposed revision. Oser agreed to prepare a draft of the supplemental agreement. The concessions were mailed simultaneously on March 3, and were received in the Patent Office on March 4 and 5. Unexecuted

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copies of the supplemental agreement were mailed by Bell's attorney to Moog's attorney on March 3. These were signed on behalf of Moog and on March 8 were returned to Bell for completion. They were signed on behalf of Bell and dated on March 16. On May 11 the Patent Office acknowledged the filing and sufficiency of the concessions and terminated the interferences. Copies of the supplemental agreement were not submitted to the Patent Office until May 2, 1966.[4]

From this sequence of events several conclusions can be drawn. First, the purpose and effect of eliminating the sublicensing provisions in the original settlement agreement was to eliminate the potential for competition in the granting of licenses which would result from each party having the power independently to license third parties under either patent.[5] The result was to restore to each patentee the exclusive power to grant further licenses under its own

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[4] Although the agreement submitted for one of the interferences (no. 92,963) was in fact a copy of the agreement in the other interference (no. 90,770), a mistake which was later corrected by submission of a copy of the correct agreement, the variance is immaterial. The supplemental agreements for the two interferences were identical in their terms (and will hereinafter be referred to occasionally as a single agreement), and in any event the dates of filing of both the incorrect and the correct copies were beyond the statutory period.

[5] At the time of the original agreement neither Moog nor Bell was assured of winning either interference, and the sublicensing provision eliminated the risk of total loss for both parties. However, once they had determined that each was to prevail on certain claims, and that the resultant patents would be blocking patents, the original risk against which both had sought protection was eliminated, and because the value of each patent would be enhanced if held by only one rather than two potential licensors, the parties followed their economic self-interest and eliminated the original pooling-type arrangement.

patent. Second, there was an understanding between Moog and Bell as of February 25, 1965, that such a modification of the 1964 agreement was to be made prior to the filing of the parties' concessions of priority. And third, this understanding was a condition precedent to the filing of those concessions, which was in turn a condition precedent to termination of the interferences.

Relation of the Supplemental Agreement to Termination of the Interference

As noted in the previous opinion, the statutory reference to agreements made "in connection with or in contemplation of" termination requires a "definite link between the settlement of an interference and the agreement or understanding."[6] Whether and to what extent that link must be one of causality was, under the facts as previously known, a significant issue. Assuming that the supplemental agreement was not consummated until formally executed by both parties on March 16, it would have antedated the formal termination on May 11 but would have followed the submission of concessions on March 3, which effectively settled the interference and insured its later pro forma termination by the Patent Office. It would have been connected with and contemplated the settlement of the interference in the sense that it affected who would enjoy the benefits of the patents issued as a direct result of the settlement, but would not have altered the determination of priorities, the filing of concessions, the formal termination, or the ultimate issuance of the patents. To the extent it was merely incidental to the settlement and did not affect the termination,

[6] Memorandum Opinion of June 26, 1973, 376 F.Supp. at 439.

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it might arguably fall outside the scope of congressional intent as embodied in section 135(c). There is little helpful case law on the subject,[7] and the legislative history is conflicting.[8]

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[7] It seems there are only two reported opinions in which a court has applied 35 U.S.C. § 135(c), and in neither case did this issue arise. In both Esso Research & Eng'r Co. v. Brenner, 165 U.S.P.Q. 486 (D.C.Cir. 1970), and Old Dominion Box Co. v. Continental Can Co., 273 F.Supp. 550 (S.D.N.Y. 1967), aff'd, 393 F.2d 321 (2d Cir. 1968), the relationship between the unfiled agreement and termination of the interference was strong and direct. In *Esso* "a settlement agreement was rendered and the interference proceeding terminated". 165 U.S.P.Q. at 487. In *Old Dominion*

> "[t]he agreement contained no specific provision for the termination of the interference proceedings as to the Weiss patent, yet the licensing of Federal under the Weiss patent, for all practical purposes, made it improbable that the interference proceedings would or could be continued. The parties to the agreement apparently recognized that fact, for on the very day the contract was entered into counsel for Continental wrote counsel for Federal in regard to the matter of terminating the interference proceedings, which was done." 273 F.Supp. at 562.

Yet in each case the court used language implying that the statute should be applied "as written", a construction which would presumably include agreements far less directly connected to termination than those revealed in *Esso and Old Dominion*. *See* 165 U.S.P.Q. at 487; 273 F.Supp. at 562.

[8] Throughout the legislative history the type of agreement of which filing would be required was referred to as a "settlement agreement", and usage clearly indicates that reference was generally being made to those agreements which cause an interference to be settled and consequently terminated. *See, e.g.,* S.Rep.No.2169, 87th Cong., 2d Sess. 2 (1962), *reprinted in* 1962 U.S.Cong.Code & Ad. News 3286, at 3286:

> "The purpose of this bill is to amend the patent laws to require the filing in the Patent Office of agreements settling patent interference proceedings. . . . Interference proceedings may be terminated in a manner hostile to the public interest by using

(Footnote continued on following page)

This difficult question need not be decided, however, in view of the submission of proof that the supplemental agreement of March 16 was the formalization of an understanding between the parties to the interference which dates back to February 25, 1965, well before the concessions were filed. At least as of that date, an understanding or agreement within the meaning of the statute existed between the interference parties. The use by Congress of the word "understanding" conveys as clearly as possible its intent to include any meeting of the minds of whatever proportions. An understanding is not exempted from the requirements of section 135(c) merely because it is tentative or informal or because certain details are to be filled in at a later date.

Moog has not denied the events in question. Instead, it argues that it is the determination of priority, not

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patent interference settlement agreements as a means of restricting competition. To make such a practice more difficult the bill requires the filing of such agreements in the Patent Office."

See also H.R.Rep.No.1983, 87th Cong., 2d Sess. 1 (1962): "H.R. 12513 would amend the patents laws to require the filing in the Patent Office of agreements settling patent interference proceedings." But on the other hand, there are occasional references which seem to contemplate a somewhat broader meaning for the "connection or contemplation" language. *See, e.g.,* Hearings on H.R. 11015 Before Subcomm. No. 3 of the House Comm. on the Judiciary, 87th Cong., 2d Sess. 11 (1962) (comment of Rep. Willis, chairman of the subcommittee and chief sponsor of the House bill, referring to "side agreements"); *id.* at 17: "The bill in my view . . . would be meaningless if it didn't contemplate that the agreement filed . . . should be the whole agreement."

For a further examination of the legislative history of this provision, in addition to the sources cited above, *see generally* Hearings on H.R. 12513 Before the Subcomm. on Patents, Trademarks and Copyrights of the Senate Comm. on the Judiciary, 87th Cong., 2d Sess. (1962).

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the mere filing of concessions, which is the crucial act in termination, and it is that to which the understanding or agreement must be related.

This position is unacceptable. Assuming arguendo that the agreement must in some way be causally related to the termination, the fact remains that this supplemental agreement was a condition precedent to the filing of the concessions, and it was the act of filing these concessions, not the determination of priority, which effected the termination. The situation is not unlike that of any litigant who informally concedes liability. Such an admission may be damning proof against him, but unless he can be persuaded to formally stipulate as to his liability and acquiesce in a settlement of the case, the trial must still be held. A party's admission that his case is hopeless does not of its own force authoritatively declare it so, nor does it end the case if the declarant insists upon the exhaustion of his procedural rights. Because the parties' priority determinations could not have terminated the interferences unless they were submitted to the Patent Office as formal concessions, and because the agreement to remove the sublicense rights was made a precondition to the filing of those concessions, that agreement was made "in connection with or in contemplation of the termination of the interference" under even the most stringent and demanding interpretation of the necessary connexity. How much less would suffice need not now be determined.

Second Memorandum Opinion of the United States District Court

Antitrust Implications of the Supplemental Agreement

The opinion of June 26 held that only agreements having "antitrust implications" were required to be filed under section 135(c).[9] Because of the direct connection subsequently revealed between the supplemental agreement and termination of the interference in this case, that condition is now clearly met.

If the agreement materially affects either the issuance or the utilization of a patent, it is intrinsically a matter

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[9] The parties have read far more into this holding than was originally intended. It is essentially nothing more than an application of the maxim *de minimis non curat lex*, designed to remove from the statutory ambit agreements so insignificant or innocuous that imposition of a forfeiture for nonfiling would be totally inappropriate and unnecessary, and therefore presumably not intended by the Congress. As noted in the text following this footnote, this problem does not arise if the connection between the agreement and termination is direct and substantial. Such agreements, whatever their content, are necessarily possessed of antitrust significance. However, if the statute is read as also applying to incidental or collateral agreements having only a minimal "connection with" the termination of an interference, then the statute's potential reach is enlarged beyond its rationale of deterring and exposing improper agreements. Admittedly the filing requirement is essentially prophylactic rather than remedial, and thus must apply to all agreements which offer the slightest potential for producing illicit consequences. An after-the-fact determination that the agreement was in fact proper is insufficient to excuse noncompliance. Yet it is conceivable that certain agreements literally connected with or made in contemplation of termination would nevertheless be so far removed from even the *possibility* of impropriety, that even the broad prophylactic purposes of the statute would not be furthered by its application to them. This exception is obviously of very limited scope and will be properly invoked only in rare circumstances. Because it has become clear it does not apply in this case (*see* text, *infra*), there is no need to further define its particulars.

of significance under the antitrust laws. A patent is a strictly limited exemption from the prohibitions against anti-competitive conduct which would otherwise apply to the patentee's monopolistic practices.[10] If a patent is improperly obtained or used, the anticompetitive activities undertaken on its authority may not be protected by the patent laws and may violate the antitrust laws.[11] Thus, any agreement having a causal link with the termination of an interference (*i.e.*, a nonincidental agreement) *per se* has antitrust implications (assuming of course that the termination materially affects ultimate issuance of the patent). Because the supplemental agreement between

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[10] *See, e.g.*, United States v. Line Material Co., 333 U.S. 287, 309-310, 68 S.Ct. 550, 92 L.Ed. 701 (1948).

[11] For example, the fraudulent procurement of a patent renders it void. Precision Instrument Mfg. Co. v. Automotive Maintenance Mach. Co., 324 U.S. 806, 65 S.Ct. 993, 89 L.Ed. 1381 (1945). Proof of fraudulent procurement would therefore strip the patentee of its exemption from the antitrust laws, and require that any anti-competitive actions taken under the aegis of the invalid patent be carefully examined to determine if they contain the elements of an antitrust violation. Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 86 S.Ct. 347, 15 L.Ed.2d 247 (1965). Likewise, "[b]eyond the limited monopoly which is granted, the arrangements by which the patent is utilized are subject to the general law". United States v. Singer Mfg. Co., 74 U.S. 174, 196, 83 S.Ct. 1773, 1785, 10 L.Ed. 2d 823 (1963); United States v. Masonite Corp., 316 U.S. 265, 277, 62 S.Ct. 1070, 86 L.Ed. 1461 (1942), and "the improper use of that monopoly" may subject the patentee to antitrust liability. United States v. Line Material Co., 333 U.S. 287, 310, 68 S.Ct. 550, 562, 92 L.Ed. 701 (1948).

Although not every misuse of a patent necessarily constitutes an antitrust violation, Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 140-141, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969), the potential is sufficiently great to make the use and misuse of patents *per se* a matter of interest and significance under the antitrust laws. *Cf.* Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., *supra.*

Moog and Bell was a condition precedent to termination, and was thus essential to issuance of the patent which Moog now seeks to enforce, the agreement was by that fact alone possessed of antitrust implications and should have been timely filed.

The supplementary between Moog and Bell thus falls within the purview of 35 U.S.C. § 135(c). Because it was not timely filed, the patent obtained by Moog as a result of the termination of the interferences is unenforceable. Unenforceability is an absolute defense to a claim of infringement, and judgment must therefore be rendered for the defendant.

An appropriate order may be submitted.

Opinion of the Court of Appeals

COURT OF APPEALS, SIXTH CIRCUIT

MOOG, INC.,

v.

PEGASUS LABORATORIES, INC.

No. 74-2190 Decided Sept. 5, 1975

Before PHILLIPS, Chief Judge, and EDWARDS and PECK, Circuit Judges.

EDWARDS, Circuit Judge.

This case involves United States Patent Office interference proceeding and a statute which regulates any private agreements which are employed to settle such disputes. This statute, 35 U.S.C. § 135(c) (1970), reads as follows:

> (c) Any agreement or understanding between parties to an interference, including any collateral agreements referred to therein, made in connection with or in connection with or in contemplation of the termination of the interference, shall be in writing and a true copy thereof filed in the Patent Office before the termination of the interference as between the said parties to the agreement or understanding. If any party filing the same so requests, the copy shall be kept separate from the file of the interference, and made available only to Government agencies on written request, or to any person on a showing of good cause.

> Failure to file the copy of such agreement or understanding shall render permanently unenforceable such agreement or understanding and any patent of such parties involved in the interference or any patent subsequently issued on any application of such parties so involved. The Commissioner may, however, on a showing of good cause for failure to file within the time prescribed, permit the filing of the agreement or understanding during the six-month period subsequent to the termination of the interference as between the parties to the agreement or understanding.
>
> The Commissioner shall give notice to the parties or their attorneys of record, a reasonable time prior to said termination, of the filing requirement of this section. If the Commissioner gives such notice at a later time, irrespective of the right to file such agreement or understanding within the six-month period on a showing of good cause, the parties may file such agreement or understanding within sixty days of the receipt of such notice.

We hold that this statute is designed to restrict monopolistic practices and (at least for purposes of this case) means just what it says and requires no interpretation. In the facts of this appeal the statute clearly required the District Judge and clearly requires us to find that the patent in suit is "permanently unenforceable."

Plaintiff-appellant Moog, Inc, appeals from a holding by the United States District Court in the Eastern District of Michigan that Patent No. 3,228,423, held by Moog pertaining to a dry motor type electro-hydraulic servovalve is "permanently unenforceable" under 35 U.S.C. § 135(c)

(1970). This litigation originated as a suit brought by Moog against Pegasus Laboratories, Inc., for alleged infringement of its servovalve patent. By answer and amended answer Pegasus pleaded the defense of unenforceability under 35 U.S.C. § 135(c) (1970), and sought summary judgment.

The District Judge accepted for purposes of Pegasus' summary judgment motion Moog's own proposed findings of facts. The District Judge entered two opinions, Moog, Inc. v. Pegasus Laboratories, Inc., 376 F.Supp. 439, 180 USPQ 4 (E.D. Mich. 1973); Moog, Inc. v. Pegasus Laboratories, Inc. 376 F.Supp. 445, 183 USPQ 225 (E.D. Mich. 1974). The first dealt with Moog's procedural objections to consideration of the Pegasus defense based on § 135. No appellate issue is presented on this score. The District Judge also held, however, that § 135 should not be read as requiring the filing on pain of permanent unenforceability of a supplemental agreement providing "only incidental modification to a termination agreement" where "there are no antitrust implications, real or potential." 376 F.Supp. at 445, 180 USPQ at 8. He set the case for hearing upon the question as to whether there was a "definite link between the settlement of an interference and the [disputed] agreement or understanding." 376 F.Supp. at 443, 448, 180 USPQ at 227.

After further proceedings to develop the complete documentary record of the negotiation, execution and ultimate filing of the supplemental agreement, the District Judge entered a second opinion summarizing the pertinent facts:

> Two interferences were involved. The first was declared in December of 1959, the second in August of

1962. The opposing parties in each case were plaintiff Moog and the Bell Aerospace Corporation. Both parties were notified by the Patent Office of the filing requirements of section 135(c). On August 21, 1964, the parties entered into a written agreement which provided for a settlement procedure requiring the exchange of proofs, to be followed by concessions of priority. The parties also granted each other nonexclusive royalty-free cross-licenses under their respective applications, and each granted the other the right to sublicense third parties. This agreement was properly filed with the Patent Office for both interferences. After proofs had been exchanged and concessions filed, Moog and Bell entered into a written supplemental agreement dated March 16, 1965, which revoked the previously agreed-upon right of each to sublicense any patent awarded to the other as a result of the interference proceedings. This supplemental agreement was later filed, but not within the time prescribed in the statute.

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On February 10, 1965, Moog and Bell exchanged documents relating to proof of priority, as provided for in the 1964 agreement. On February 15, 1965, Oser (Bell's attorney) telephoned Sommer (Moog's attorney) and reported that Bell was willing to concede priority to Moog in one interference, and Sommer indicated that Moog was tentatively willing to concede priority to Bell in the other. On February 17 Sommer telephoned Oser to report that the cross-concessions were acceptable. It was agreed that the respective concessions were to be prepared and signed but not

filed until an understanding could be reached concerning revision of the 1964 settlement agreements to eliminate the sublicensing provisions. Sommer suggested such a revision; Oser was to advise Sommer as to Bell's position on Sommer's proposal. On February 25, after consulting with his client, Oser telephoned Sommer advising that Bell had no objection to the proposed revision. Oser agreed to prepare a draft of the supplemental agreement. The concessions were mailed simultaneously on March 3, and were received in the Patent Office on March 4 and 5. Unexecuted copies of the supplemental agreement were mailed by Bell's attorney to Moog's attorney on March 3. These were signed on behalf of Moog and on March 8 were returned to Bell for completion. They were signed on behalf of Bell and dated on March 16. On May 11 the Patent Office acknowledged the filing and sufficiency of the concessions and terminated the interferences. Copies of the supplemental agreement were not submitted to the Patent Office until May 2, 1966. 376 F.Supp. at 477, 183 USPQ at 227. (Footnotes omitted.)

The District Judge then concluded:

From this sequence of events several conclusions can be drawn. First, the purpose and effect of eliminating the sublicensing provisions in the original settlement agreement was to eliminate the potential for competition in the granting of licenses which would result from each party having the power independently to license their parties under either patent. The result was to restore to each patentee the exclusive

> power to grant further licenses under its own patent. Second, there was an understanding between Moog and Bell as of February 25, 1965, that such a modification of the 1964 agreement was to be made prior to the filing of the parties' concessions of priority. And third, this understanding was a condition precedent to the filing of those concessions, which was in turn a condition precedent to termination of the interferences. 376 F.Supp. at 447-48, 183 USPQ at 227. (Footnotes omitted.)

Since the facts in this record appear to us to support (indeed, to compel!) the District Judge's findings of fact and conclusions of law as arrived at in his second opinion, we find no need to deal in this case with the questions considered in his first opinion.

The patent law of the United States is not designed to allow private parties to determine amongst themselves who shall have the right to a legal monopoly. Precision Instrument Mfg. Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, 815-16, 65 USPQ 133, 138 (1945). Even less is it intended to support the negotiated grant of two patents upon one invention where the purpose and effect may be that any potential licensee must pay tribute to two separate patentholders. See generally United States v. Addyston Pipe and Steel Co., 85 F. 271, 282-83 (6th Cir. 1898), aff'd, 175 U.S. 211 (1899).

Moog's brief discusses its rationale for desiring this result:

> [The] desire to revoke the sublicense provisions was motivated by a lawful business purpose. Having determined that Wolpin et al. was entitled to the broad

"flexure member" claims of Interference No. 90,770, but that W. C. Moog was entitled to the specific "flexure tube" claims of Interference No. 92,963, it became apparent to attorney Sommer that the Wolpin et al. and W. C. Moog applications would issue as blocking patents. That is, the Wolpin et al. patent would have a dominant "flexure member" claim, while the W. C. Moog patent would be subservient having a "flexure tube" claim. But since every "flexure tube" is necessarily a "flexure member", a prospective licensee who might desire to practice Moog's specific "flexure tube" invention would have to obtain rights under the dominant Wolpin et al. patent, as well as under the subservient W. C. Moog patent. Rights under both patents would be necessary regardless of whether such prospective licensee approached either Bell or Moog. Under the 1964 Agreements, Bell could grant a license under Wolpin et al. and a sublicense under the W. C. Moog patent; conversely, Moog could grant a license under the W. C. Moog patent and a sublicense under Wolpin et al. But it must be remembered that such prospective licensee had no assurance that either Bell or Moog would grant such rights. Only the possibility existed.

Realizing that blocking patents would issue, attorney Sommer foresaw that the sublicense provisions in the 1964 Agreements would be undesirable to Moog for two practical reasons. First, Moog would not be able to pursue an infringer of its own specific "flexure tube" patent without fearing that such infringer might possibly negotiate a sublicense under Moog's own patent from Bell. Secondly, the 1964 Agreements did not re-

quire Bell to account to Moog for any royalties Bell might receive by granting sublicenses under Moog's own patent.

The practical effect of the patents as issued under the filed agreements with the cross-licensing features would have been at least the equivalent from the public point of view of joint ownership of one patent. As Moog points out, there might even have been competition in relation to licensing between Moog & Bell.

Actually, however, unbeknown to the Patent Office, Moog and Bell had also negotiated another agreement by which they revoked their prior undertaking, filed with the Patent Office, that granted licenses and the right to sublicense to each other. The effect of revocation was that neither party could thereafter grant sublicenses under the other's patent. This agreement was formally executed on March 16, 1965, well before May 11, 1965, the date on which the Patent Office terminated the interference. Indeed, the patent in suit did not issue until January 11, 1966. The supplementary agreement was not filed until May 2, 1966, well after each and all of the potential filing dates specified in the provisions of § 135(c).

It appears to this court that this record shows that Moog and Bell did exactly what § 135 was designed to prevent. Their agreement to abrogate their previously filed agreement for cross-sublicensing was illegally withheld from the Patent Office. It represented the very sort of antitrust violation which § 135 was designed to restrain. If it had been disclosed as § 135 required, the nature of the agreement would have been likely to provoke "adverse" action by the Patent Office or the Justice Department.

In the course of consideration of § 135 before the Senate, the Department of Justice over Acting Attorney General Katzenbach's signature outlined the antitrust purpose contemplated for the bill and suggested the unenforceability provision which was enacted:

> The Supreme Court in holding a private interference settlement to be so inequitable as to preclude the enforcement of the resulting patent stated in Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806, 815-816, 65 S.Ct. 993, 89 L.Ed. 1381, 65 USPQ 133, 138 (1945):
>
> "• • • The possession and assertion of patent rights are 'issues of great moment to the public' [citing cases]. A patent by its very nature is affected with a public interest. As recognized by the Constitution, it is a special privilege designed to serve the public purpose of promoting the 'progress of science and useful art'. At the same time, a patent is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope. The facts of this case must accordingly be measured by both public and private standards of equity."
>
> The purpose of this legislation is to make it more difficult for patent applicants to use an interference settlement agreement as a means of violating the anti-

trust laws. It seeks to accomplish this purpose by providing that no such agreement or understanding shall be enforceable unless all of its terms are in writing and filed prior to the termination of the interference proceeding. It is our view that this prohibition would not adequately deter violations of the antitrust laws. It is therefore suggested that the measure be amended to provide that parties to an interference settlement agreement shall be precluded from enforcing the resulting patent unless a copy of the settlement agreement has been filed with the Patent Office prior to the termination of the interference. In order to protect innocent parties who inadvertently fail to file a copy of their settlement agreement, the Commissioner of Patents should be given the authority to entertain, at any time during the 6-month period subsequent to the termination of the interference, a petition by either party for leave to file a copy of the agreement, which petition may be granted on a showing of good cause for the failure to file within the time prescribed. Further, it is suggested that the bill should provide a right of action in the United States to obtain a civil penalty for failure to file a copy of an interference agreement. S. Rept. No. 2169, 87th Cong., 2d Sess., Reported in 2 U.S. Code Cong. & Adm. News 3286, 3289 (1962).

The Senate Report on § 135 recited its central purpose:

The purpose of this bill is to amend the patent laws to require the filing in the Patent Office of agreements settling patent interference proceedings. When two or more applicants claim substantially the same invention an interference is declared in order to determine which

> applicant is entitled to priority. Interference proceedings may be terminated in a manner hostile to the public interest by using patent interference settlement agreements as a means or restricting competition. To make such a practice more difficult the bill requires the filing of such agreements in the Patent Office. Id. at 3286.

As we see this matter (and as the District Judge saw it), the withholding of the supplemental agreement cannot be considered an inadvertence.[1] Cf. Esso Research & Engineering Co. v. Brenner, 165 USPQ 486 (D.C. Cir. 1970). The District Court was right in finding a causal relationship between the withholding and the termination of the interference. He was also right in holding that the patent in suit was "permanently unenforceable" under § 135(c).

The judgment of the District Court is affirmed.

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[1] By noting this, we do not mean to pass on what the legal effect of an opposite conclusion would be.

Judgment of the Court of Appeals

Filed
Sep 5 1975
John P. Hehman, Clerk

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 74-2190

MOOG, INC.,
Plaintiff-Appellant,

v.

PEGASUS LABORATORIES, INC.,
Defendant-Appellee.

Before: PHILLIPS, Chief Judge, EDWARDS and PECK, Circuit Judges.

JUDGMENT

APPEAL from the United States District Court for the Eastern District of Michigan.

THIS CAUSE came on to be heard on the record from the United States District Court for the Eastern District of Michigan and was argued by counsel.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be and the same is hereby affirmed.

It is further ordered that Defendant-Appellee recover from Plaintiff-Appellant the costs on appeal, as itemized below, and that execution therefor issue out of said District Court if necessary.

ENTERED BY ORDER OF THE COURT.

JOHN P. HEHMAN,
Clerk.

A True Copy.
Attest:
John P. Hehman, Clerk.

Issued as Mandate:
COSTS: Awarded to Appellee

Filing fee	$.....
Printing	$1,023.65
Total	$1,023.65

Order of the Court of Appeals

Filed
Oct 24 1975
John P. Hehman, Clerk

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 74-2190

MOOG, INC.,
Plaintiff-Appellant,

vs.

PEGASUS LABORATORIES, INC.,
Defendant-Appellee.

Before: PHILLIPS, Chief Judge, EDWARDS and PECK, Circuit Judges.

On receipt and consideration of plaintiff-appellant's motion for rehearing and suggestion for rehearing *in banc;* and

No judge of this court having moved for rehearing *in banc* and the motion for rehearing having been referred to the panel which heard the appeal; and

The court finding no substantial issue presented in said motion which was not considered prior to decision,

Now, therefore, the motion for rehearing is denied.

Entered by order of the Court

JOHN P. HEHMAN,
Clerk.